Statement of
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"Hearing on China's Impact on the U.S. Auto and Auto Parts Industries"

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Mr. Chairman, members of the Commission, my name is Ron Gettelfinger. I am the president of the International Union, United Automobile, Aerospace and Agricultural Implement Workers of America (UAW). I appreciate the opportunity to present the UAW's views on the impact of the development of China's automotive industry on the U.S. auto and automotive parts industries.

Since I appeared before the Commission nearly two years ago, new investment in China to produce automotive vehicles and parts has continued to grow at a rapid pace. The U.S. deficit in automotive trade with China has also grown rapidly and we expect that trend to continue unless fundamental changes in trade policies are adopted by the U.S. government. In our 2004 testimony, we presented several proposals for addressing auto trade problems with China. Unfortunately, the Bush Administration has not taken action on any of them. We are deeply concerned that the excess production capacity that is being built in China will result in a massive increase in U.S. imports that will add significantly to the already serious job losses in the U.S. automotive industry and further depress the wages and benefits of UAW members and other American workers in this critically important and productive industry.

The industrial policy for the automotive industry that was adopted by the Chinese government in 2004 has been effective in continuing the flow of investment and technology into China, while giving Chinese automotive companies greater resources to develop their own production capacity to meet demand in China and to generate exports. In the past two years, China has become a net exporter of assembled vehicles and exports of auto parts have skyrocketed, more than doubling from 2004 to 2005, while imports of auto parts fell. The Chinese government's plan to raise the domestic content of vehicles assembled in China and to turn China into a substantial exporter of automotive products is meeting its goals.

In 2005, China's vehicle sales rose to 5.7 million, making it the third largest automotive market in the world. Production of 6 million vehicles made China the fourth largest manufacturer of vehicles. But, equally important, China's production capacity in 2005 was 8 million vehicles. By 2010, the continuing parade of auto industry investments is expected to raise that capacity to 18-20 million, while sales in China are only expected to grow to 9-10 million. Excess capacity could grow over those 5 years from 25 percent to 100 percent. It is the tremendous excess capacity in China that causes grave concern about the potential for dramatically higher U.S. imports of Chinese-built vehicles and automotive parts.

The worsening trend in U.S.-China automotive trade that we identified in 2004 has continued. From 2003 to 2005, the U.S. automotive trade deficit with China doubled to $4.5 billion and it is continuing to climb this year. Through April, the deficit is up by 26 percent, led by a 30 percent increase in imports of automotive parts.

Two Chinese auto companies, Chery and Geely, have already announced their intention to export vehicles to the U.S. within the next three years. With the creation of so much excess capacity in China in the next few years, we expect the Chery and Geely exports to be just the tip of the iceberg. DaimlerChrysler has floated the idea of importing sub-compact vehicles from China and several of the Chinese auto companies that are in joint ventures with U.S., Japanese, European and Korean auto companies, including Shanghai Automotive Industry Corporation, have made it clear that they intend to export vehicles to the U.S. and other developed-country markets.

Chinese vehicle imports, which could easily reach one million units quickly, would add to the growing U.S. automotive trade deficit with China and to the already record-setting overall U.S. automotive trade deficit. The growing share of imports in total U.S. vehicle sales is depressing employment in the U.S. auto industry and contributing to the falling market shares of the largest U.S. producers – General Motors, Ford and DaimlerChrysler.

Adding imported vehicles from China to the current mix of imports will affect U.S. auto parts production and employment, in addition to eliminating the jobs of thousands of assembly workers. Employment in the U.S. auto parts industry has already fallen by about 200,000 in the past five years and that number will grow dramatically when the many companies that have filed for bankruptcy implement their job-cutting plans. Further job losses in the auto parts industry will be devastating to many communities across the nation, as well as to affected workers.

For many of the top U.S. auto parts suppliers that have already invested in Chinese production, U.S. production and employment would be hurt by imports of vehicles from China, but their Chinese operations would benefit. These companies have followed assemblers to China, hoping to grow along with the expansion of production capacity there. With the market in China growing slower than capacity, exports to the U.S. will keep more of their own Chinese capacity viable. Delphi and TRW Automotive are among the companies that are exporting to the U.S. in order to utilize excess capacity in China. For the smaller auto parts companies that are suppliers to the Tier 1 companies, many of which have resisted moving production to China or other low-cost production sites, the loss of U.S. customers due to growing imports from China could be devastating. With much of the auto parts supply chain having moved abroad due to tremendous cost-cutting pressures from assemblers and the largest supplier firms, imports of vehicles from China could become the last straw that forces smaller suppliers to leave the business or move production abroad.

A further negative impact on U.S. suppliers will come from the benefits that Chinese-based suppliers will gain from vehicle exports to the U.S. Chinese companies that either have established joint ventures with U.S.-based suppliers or independently supply Chinese assemblers that export to the U.S. market would establish their presence in this market through those Chinese exports. As original equipment suppliers to U.S.-sold vehicles, they would be in a much stronger position to challenge all of the layers of U.S. and global suppliers for business in this country, for both original equipment and aftermarket parts. Their relationships in China with U.S. and other multinational auto companies, as partners or as customers, have given the Chinese parts companies the technology and experience to meet the quality and reliability standards that make them serious competitors for U.S. producers.

One of the ways China was able to reduce auto parts imports was by raising the effective tariff on some imported parts. In the middle of 2005, China started to apply the higher tariff for imported vehicles on imported parts when those parts account for more than 60 percent of the parts value of a vehicle assembled in China. While some countries have applied vehicle tariffs to parts that are included in complete knock-down (CKD) kits, China decided to apply the same standard to parts that were imported separately if the value of imported parts in a China-assembled vehicle reached 60 percent of the total parts value. China's WTO agreement eliminated the 40 percent minimum local content requirement for vehicles, but this tariff policy allows China, effectively, to keep it in place. The governments of the U.S., the European Union and Canada have filed a case with the WTO that claims China's policy is an unfair trade practice, but it could take more than a year to get an answer from the WTO. By then, even more global parts companies will have set up plants in China and/or transferred their technology to Chinese parts producers. Even if the WTO case forces China to stop this unfair practice, the Chinese government's policy goal of raising domestic content will have been advanced.

The remedies that we proposed in our 2004 testimony to address the growing U.S. deficit in automotive trade with China are equally appropriate today. However, the inaction of the Bush Administration in the past two years has allowed the deficit to grow, making a quick and effective solution more difficult to achieve. The Bush Administration has the responsibility to ensure that the U.S.-China economic relationship is improving living standards for Americans. But the Administration has simply abandoned this responsibility, leaving multinational corporations in charge of that relationship. The results speak for themselves –

an unprecedented U.S. overall trade deficit with China of $201 billion in 2005 and a steadily rising automotive trade deficit.

Two of our proposals are related to issues that have been the subject of petitions for action by the Bush Administration under Section 301 of U.S. trade law, as unfair trade practices – China's manipulation of its currency and its violation of internationally-recognized worker rights. The Administration has rejected petitions on both issues, but a new worker rights petition was submitted last month that, once again, demonstrates the damage to U.S. production and employment that results from China's denial of the core labor standards.

The widely recognized undervaluation of China's currency remains a major advantage for parts companies seeking additional sales in the U.S. through imports from China and a powerful disadvantage for U.S. exports to China. Intense cost competition in the U.S. auto industry continues to drive purchasing decisions, for original equipment and aftermarket parts, and for all levels of the automotive supply chain. Since many U.S. companies have their own production facilities in China, they can control the quality of the components they import, as well as benefit from the low cost. While many major parts systems are assembled close to assembly plants, many of the components that are assembled into those systems are imported. The currency manipulation by the Chinese government makes the rapid growth of Chinese auto parts possible.

When China joined the WTO and agreed to reduce tariffs on imports of vehicles and automotive parts, many trade experts expected U.S. exports to grow substantially. While there has been an increase in U.S. exports as tariffs have fallen, the Chinese government's manipulation of the exchange rate, keeping it undervalued, has prevented many U.S. products from being price-competitive in China. The miniscule devaluation of China's currency that began a year ago and has raised the value of the yuan by only three percent has been far too small to make a dent in the direction of the automotive trade deficit. With China surpassing Japan as the world's largest holder of foreign currency reserves, and with most of those reserves held in U.S. dollars, the Chinese government retains full control over the dollar-yuan exchange rate. To defend Chinese producers against import competition and to stimulate additional exports, the Chinese government remains committed to an undervalued yuan and a soaring trade surplus. Automotive trade, in vehicles and parts, will be affected by this exchange rate policy and we do not expect that a change will take place until the U.S. government takes effective action.

The systematic violation of workers' rights in China also provides an unfair advantage to products made in China. The impact of these violations was dramatically documented in the Section 301 petition filed in 2004 by the AFL-CIO on behalf of the UAW and other U.S. unions. The Bush Administration rejected that petition on the grounds that it would address these violations in other discussions with China. Unfortunately, those discussions never took place. To ensure that the Administration cannot continue to ignore the repression of Chinese workers' rights, a new petition was submitted on June 8. It confirms that worker rights violations in China, and the suppression of Chinese workers' wages and incomes that result, remain widespread and continue to give Chinese products an unfair advantage in trade with the U.S. and cause massive job losses for American workers. Chinese workers are prevented from exercising the right to freedom of association, which would allow them to form independent unions, and other rights included in the Section 301 provision and covered by the International Labor Organizations' Fundamental Principles and Rights at Work. All too many Chinese workers are forced to put in excessive hours, paid less than the legally-required minimum wage, denied overtime pay and forced to wait months to receive their pay.

The social safety net that once helped Chinese workers sustain themselves and their families in the face of worker rights violations has been shredded in the past 25 years, leaving more than 80 percent of China's 1.3 billion people with no medical insurance. A tremendous increase in labor-related lawsuits and spontaneous demonstrations against abusive working conditions and violations of citizens' rights by various government entities has been one response to the attacks on millions of workers' incomes and living standards.

Combined with the dangerous health and safety conditions facing workers, including the deaths of thousands of workers in 2005 in mining accidents alone, it is clear that the situation of workers in China is bleak and that strong, democratic, independent unions are desperately needed to fight for the interests of workers. Support for this position has been voiced from unexpected sources – Washington Post op-ed writer Jim Hoagland recognized the need for independent unions in a column on March 13 this year, and MSN Money's Jim Jubak came to the same conclusion in his April 5 Jubak's Journal. The repression of workers' rights must be identified clearly as an unfair trade practice and the Section 301 petition must be used to force the Chinese government to improve the conditions of Chinese workers quickly.

In our 2004 testimony to the Commission, we cited the cases of Yao Fuxin and Xiao Yunliang as examples of the Chinese government repression that must be stopped. They received sentences of seven years and four years, respectively, for leading demonstrations that demanded the payment of wages and benefits that were owed to workers by a state-owned company. Earlier this year, Xiao Yunliang reached the end of his four-year sentence and he was released. Yao is still serving the remaining three years of his sentence, despite being in very poor health. The fact that these workers, and countless others, were given prison sentences for demanding legally-mandated payments and engaging in peaceful protests indicates the degree of Chinese government repression of basic worker and human rights.

In the past two years, the overall U.S. trade deficit with China has soared from $124 billion in 2003 to $201 billion in 2005, and the auto trade deficit doubled to $4.5 billion. Both deficits are still climbing this year. To turn around the damaging trends in U.S.-China automotive trade and investment and to make it possible for UAW members and other workers in the U.S. automotive industry to avoid serious harm from a rapidly rising U.S. automotive trade deficit in the very near future, the U.S. government will have to act quickly and decisively. We made these proposals in 2004 and, because of the Bush Administration's inaction, we must repeat them now.

China's manipulation of its currency must stop and the value of the yuan must rise in dollar terms. The Bush Administration's Treasury Department has had many opportunities since we appeared before this Commission in 2004 to identify China's government as a currency manipulator and, in bilateral meetings, to challenge it to move quickly to fix this problem. The fanfare that surrounded the two percent revaluation of the yuan last summer, and the paltry additional one percent revaluation since then, has had no impact on the ability of Chinese producers to keep the prices of their exports to the U.S. low and to undercut the prices of U.S. exports in China. U.S.-China automotive trade would look very different with a fair exchange rate and reciprocal access for competitive products in the two markets. The "China price" would be far less threatening to competing U.S. producers and workers with a fair exchange rate. That is what we seek and that is what the Bush Administration must accomplish.

The vicious repression of Chinese workers must end. The Bush Administration has a new opportunity to make a difference by accepting the recently submitted Section 301 petition and using it to open a new era of progress for millions of Chinese workers. Ending the Chinese government's suppression of worker rights and the repression of workers who try to exercise them would open the door to higher incomes for millions of Chinese workers and reduce the downward pressure on the incomes of American workers. More income for Chinese workers would increase demand in China for automotive products and reduce the excess capacity that is pushing Chinese producers to export and depressing prices in the U.S. and other countries. It would relieve some of the competitive pressure that is leading auto parts companies to declare bankruptcy and to seek to abandon pension and health care obligations to their unionized employees.

While China's accession agreement to the WTO has major flaws, the U.S. must be sure to take full advantage of the WTO commitments that China has made. Filing a case against China's unfair treatment of some auto parts imports, by applying the higher tariff for vehicles, is a small step in that direction, but it is not enough. China's actions only demonstrate that it will go to great lengths to preserve the auto policies it had in place before joining the WTO – forcing investment in local production in place of imports; compelling technology transfers to local producers; imposing higher local content requirements; and, providing export incentives. The Bush Administration must develop a full catalogue of the practices (including subsidies and discriminatory taxes) that China is using to achieve these objectives, assess their compatibility with China's WTO commitments, and take actions as needed to defend U.S. production and employment.

With the rapid growth of excess production capacity in China's automotive vehicle and parts industries, we are likely to see a surge of Chinese exports to the U.S. that would cause serious, and potentially permanent, injury to U.S. workers and producers in the near future. When an import surge occurs, the Bush Administration must be prepared to act forcefully and quickly. To prevent the industry and its workers from suffering any sustained injury, the Administration must be willing to use the special safeguard measures included in the U.S.-China WTO accession agreement and to strengthen the provisions of Section 201 of U.S. trade law. The special safeguard was included in China's accession agreement because the U.S. understood the potential for China to ramp up production for export that could rapidly overwhelm competing U.S. industries. Without justification, the Bush Administration has been reluctant to file WTO cases against China. It must not hesitate to use the special safeguard measure to stop any import surge in the automotive industry.

The Administration's half-hearted enforcement of the Section 201 case on steel products showed that greater certainty of action and less discretion in implementation must be incorporated into the law, and we urge Congress to make those necessary improvements. When facing a surge of automotive imports from China, we believe the Bush Administration must take effective actions under Section 201 to blunt its impact and put this critically important industry on a path that will make it even stronger in the future. If the Administration fails to take such actions, we are ready to mobilize intense pressure from workers, the public, Congress and the industry to ensure that the Administration takes the most effective actions permitted by the law.

Action by Congress to pass and implement the UAW-endorsed "Marshall Plan" for the auto industry would stimulate U.S. investment and production of advanced technology vehicles and their components, giving U.S. workers and producers an edge over Chinese and other foreign suppliers. A study by the University of Michigan found that this plan would create tens of thousands of new American jobs. By shifting the competitive ground in the industry to effective use of new technologies rather than minimizing costs, the adoption of this strategy would take advantage of the skills and experience of UAW members and other American workers in the automotive industry. Accelerating the development of the infrastructure for producing advanced technology vehicles would also improve fuel economy and the environment and strengthen the nation's economic and national security by reducing our dependence on imported oil.

Taken together, all of the actions we propose would alter the forces at work that are creating the foundation for a tremendous increase in the U.S. deficit in automotive trade with China and contributing to downward pressure on the wages, benefits and working conditions of workers in these industries. They would raise incomes and increase demand for automotive products in China, promote investment, production and employment in the U.S. automotive industry and eliminate several of the incentives that unfairly stimulate investment and production in China. Because of the size of the increase in Chinese production capacity that is expected by 2010, any delay in the adoption of these measures would seriously weaken their impact.

Mr. Chairman, members of the Commission, thank you for holding this hearing on the China's impact on the U.S. auto and auto parts industries and their workers. By continuing to focus on developments in these industries, you demonstrate to the public and policy-makers how important they are to the health of the U.S. economy and how the challenges they face threaten to depress U.S. living standards. We applaud the Commission's ongoing efforts to highlight what is at stake in our economic and security relationship with China and we urge you to support our proposals for government action. The UAW looks forward to working with the Commission and answering any questions you may have.